RPCA FINANCIAL VENTURES QP & LP ("FUND 1")

2nd Quarter 2018 *"Bank Performance"* Newsletter

- **Key Operating Takeaways from Q2:**
  - **13 of 19 Banks Post Record High Adjusted Earnings***
  - **YOY Adjusted EPS* up 37%!**
  - **Net Interest Margin Increases Slightly**
  - **Excellent Overall Loan Quality Continues with NPA's at 0.39% of Assets – well Below the 1% Level Considered Normal**
  - **Wgt. Avg. Capital Remains Very Strong at our Banks – But Decreases Slightly Given Stock Buybacks and Increased Dividend Payouts**

* See detailed explanation in the footnotes on page 2. This is pre-tax core earnings and makes quarterly comparisons "apples-to-apples".

General Commentary on Q2: Adjusted pre-tax Q2 income increased a stunning 37% year-over-year and a more modest 4% on a linked-quarter basis. As usual, these outcomes occur for a variety of reasons. As it happens, this time last year several of our companies announced acquisitions. Accordingly, there were a host of one-time merger related charges taken in that year-ago period. Now, a year later, those non-recurring merger costs are *gone* and the earnings of the acquired entities are being reflected in the combined results. To me, this affirms that the acquisitions being made by our banks have indeed produced a meaningful increase in earnings which, has in turn, positively impacted our adjusted EPS for the portfolio as a whole. But, that's not the only contributor to increased core profits. Happily, and as hoped/expected, net interest margins ("NIM") have expanded for many of our banks and for the weighted average NIM of the portfolio in total. (Up to 3.71% from 3.68%). While 3 basis points may not seem like a lot, spread over multi-billion dollar loan portfolios, those 3 bp's produce a great deal of additional net interest income; most of which falls directly to the bottom line.

The results above are very heartening and we should all be happy with them. But, with total transparency as our goal, we are compelled to share some not-so-great news too. Several of our banks posted larger than expected loan charge-offs this quarter (we do not believe this is the start of a trend) and one took a substantial loss on the disposition of some lower-yielding investments in order to reposition those funds into higher-yielding investments and to repay higher-cost wholesale funding. This balance sheet maneuvering should produce higher margins for this bank in the future. The resulting impact to earnings this quarter by the above factors is the primary reason for the somewhat more subdued 4% linked-quarter adjusted earnings increase. But, think about that for a moment: 4% linked quarter earnings growth would produce something in the neighborhood of 16% annualized growth. Not too shabby in my book. Just less than you might think given the much larger 37% YOY earnings increase.

As noted in the headlines, capital ratios declined slightly this quarter as a result of stock buybacks and increased dividends. We are not at all concerned by this and, in fact, welcome the return of capital. Some of you may follow the news about the Bank Stress Tests, aka CCAR (Comprehensive Capital Analysis & Review). Our community banks are not subject to these tests. It's the "big banks" which are tested. Given the results of those tests on the large banks, which now allows them to aggressively buy back stock and increase dividends, our community banks have followed suit and engaged in similar activities. I've no comment about the sufficiency of capital at the big banks – but I do believe the capital levels for our generally less risky community banks were too high. Therefore, I'm pleased to see the return of capital via buybacks and higher dividends.

As you study the chart on the following page, you'll note that the weighted average size of the banks in our portfolio increased slightly to $4.7 billion – partly due to the acquisitions I referred to above. The Beta of our portfolio is 0.83 compared to the S&P 500 and 0.69 compared to the SNL Bank Index. This means that in the event of a downturn in the market for bank stocks, it is unlikely that the decrease in Fund 1 would be as much as the SNL Bank Index taken as a whole. This "downside protection" is a hallmark of Fund 1 and something we are purposefully trying to achieve on your behalf.

We hope this information is helpful to you. As always, if you have any questions or comments, I welcome your call or email to me at 574-243-6501 or john@rosenthalpartners.net

With warmest personal regards,

John

Legend: Our color coded legend below gives an overview of GREAT, GOOD and BELOW PAR – but oftentimes does not tell the whole story. We do NOT adjust earnings for one-time events such as acquisition costs. So, a "red" in one quarter may end up being a bit misleading. Furthermore, given the lines of business for certain of our banks, there is some seasonality to income; which makes quarterly comparisons difficult. Green is outstanding and represents banks which have posted EPS increases of more than 5%, whose Net Interest Margin is up and whose Non-Performing loans are down. Yellow is good and represents banks which have posted EPS gains within a range of up or down by 4.9%. Red represents banks which have posted EPS declines of greater than 5%, had a decrease in their Net Interest Margin or an increase in Non-Performing Loans.

Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by the advisor), will be profitable or equal to past performance levels.

Fund 1 Q2 2018 Recap

Fund 1 – June 30, 2018

Ticker	Quarterly Record Pre-Prov. EPS?	Total Assets ($bils)	Pre-Provision EPS (1)			Tangible CE / Tangible		Net Interest Margin		NPAs + Loans 90+ Days PD / Assets		Reserves / Total Loans		Beta vs. Index	
				% Change from										S&P 500	SNL Bank
			2Q '18	1Q '18	2Q '17	2Q '18	4Q '17	2Q '18	4Q '17	2Q '18	4Q '17	2Q '18	4Q '17		
A	Yes	$7.6	$0.96	3%	35%	10.2%	9.9%	3.69%	3.51%	0.66%	0.51%	1.04%	1.09%	0.98	0.78
B	Yes	$2.5	$1.21	24%	48%	11.0%	10.7%	3.97%	3.89%	0.64%	0.69%	0.92%	0.94%	0.52	0.47
C	Yes	$0.4	$0.31	9%	39%	10.1%	9.6%	4.02%	3.86%	0.33%	0.30%	1.42%	1.42%	0.28	0.15
D		$4.4	$0.95	-3%	62%	8.0%	7.6%	3.80%	3.64%	0.32%	0.33%	0.57%	0.53%	0.71	0.62
E		$3.7	$0.77	4%	63%	11.5%	9.7%	4.03%	4.19%	0.45%	0.41%	0.53%	0.49%	0.53	0.48
F	Yes	$7.9	$1.18	2%	33%	NA	11.5%	4.14%	4.19%	0.21%	0.34%	1.00%	1.01%	1.06	0.89
G	Yes	$5.5	$0.93	3%	32%	8.3%	8.1%	3.76%	3.97%	0.35%	0.31%	1.04%	1.04%	0.81	0.70
H		$4.3	$0.39	-3%	15%	8.7%	9.1%	2.70%	2.87%	0.07%	0.05%	1.10%	1.15%	0.85	0.71
I	Yes	$3.3	$0.53	6%	37%	9.3%	10.0%	3.76%	3.73%	0.29%	0.38%	0.67%	0.73%	0.80	0.69
J		$3.1	$0.26	-5%	29%	8.2%	7.9%	4.29%	3.90%	0.86%	0.10%	1.36%	1.24%	0.77	0.63
K		$4.8	$0.42	10%	14%	9.5%	9.6%	4.18%	4.02%	0.84%	0.83%	1.02%	1.13%	0.89	0.72
L	Yes	$10.0	$1.20	9%	42%	8.3%	8.4%	3.98%	4.00%	0.17%	0.26%	0.56%	0.61%	1.29	1.05
M	Yes	$4.8	$0.82	9%	40%	10.1%	9.9%	3.41%	3.35%	0.34%	0.26%	1.23%	1.23%	0.90	0.77
N	Yes	$1.0	$0.67	38%	38%	7.1%	7.6%	3.32%	3.41%	0.97%	1.10%	1.22%	1.22%	0.10	0.08
O	Yes	$2.2	$0.62	5%	60%	11.4%	10.9%	5.27%	5.03%	0.35%	0.33%	1.31%	1.12%	0.67	0.59
P	Yes	$3.3	$0.62	5%	44%	10.3%	10.2%	3.87%	3.68%	0.23%	0.31%	0.96%	1.03%	0.92	0.80
Q	Yes	$6.7	$1.42	4%	26%	7.4%	7.2%	3.35%	3.45%	0.42%	0.38%	0.86%	0.85%	0.97	0.77
R	Yes	$4.7	$1.04	6%	34%	7.5%	7.6%	3.05%	2.97%	0.44%	0.46%	0.74%	0.78%	0.82	0.71
S		$2.2	$0.42	-4%	18%	8.3%	8.4%	3.04%	3.28%	0.10%	0.03%	1.08%	1.09%	0.89	0.69
Wtg. Avg.		**$4.7**		**4%**	**37%**	**8.6%**	**9.2%**	**3.71%**	**3.68%**	**0.39%**	**0.34%**	**0.97%**	**0.98%**	**0.83**	**0.69**

Note: For certain performance metrics, if GAAP data was not available, consolidated and/or bank regulatory data may have been used.

(1) Pre-Provision EPS = Pre-provision net revenue per share assuming a 35 percent tax rate and based on average diluted shares outstanding.
Pre-Provision Net Revenue = Net Interest Income + Noninterest Income - Noninterest Expense.

***As highlighted in the previous Bank Performance Newsletters, we've had to modify how to best and most clearly present comparative quarterly and year-over-year earnings data. Our goal is to put forth the most precise and accurate assessment of how our banks have done. We are again presenting earnings data on an "adjusted basis". Why? Well, it tells the most complete and correct story. With the new lower tax rates now in effect, comparisons to the year ago period would be dramatically (albeit positively) skewed to a much higher level of EPS. So, we've "normalized" earnings using a standard industry approach which adds net interest income and non-interest income; subtracts non-interest expenses and then taxes the resulting net revenue with an implied 35% tax rate. This approach neutralizes the tax rate differences between this year and last year. We've done this across the board and for all comparable periods – thereby making comparisons meaningful and relevant.**